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INSIDE ALEC

A PUBLICATION OF THE AMERICAN LEGISLATIVE EXCHANGE COUNCIL

FOCUS ON BUDGET & TAXES

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INSIDE ALEC

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GEORGIA

Government Accountability is not an Oxymoron

BY REP. CHARLICE BYRD, (GA)

Annually businesses conduct performance reviews of its employees, management and business units for efficiencies. Resources and processes that do not perform as promised or create additional inefficiencies are jettisoned. This saves money, creates shareholder value, and contributes to the organization's viability.

Envision a government that reviews its programs and agencies for inefficiencies and creates taxpayer value by eliminating redundant and antiquated programs.

I have sponsored this type of legislation in the state of Georgia. *The Georgia Government Accountability Act* (HB236) would create a Legislative Sunset Advisory Committee from selected members of the Georgia General Assembly. The Committee will review State agencies, boards, departments and commissions every two years. It could suggest a change in mission, a consolidation with other departments, an elimination of duplication of services or other efficiencies. It could also determine no change is needed. The goal is to stop perpetuating business as usual at the state capitol, where there is a continual expansion of state government.

What are the implications of Government Accountability?

Taking legislative action to supervise government spending will help alleviate the excessive burden on taxpayers. Outlined in this proposed legislation are steps to follow to effectively keep a close watch on our legislators and their bad spending habits.

First, legislators will have a complete list of the federal, state, and local programs that exist. This is to ensure all programs are accounted for so that oversight can properly take place. As Senator Tom Coburn (R-OK) iterated, "the government has grown so large and unmanageable, that even the experts, and the departments themselves, cannot compile a list of all federal programs within their purview." It's time we force the government to do so, which will happen under HB 236.

Next, the list of agencies, commissions, departments, and boards to be reviewed will be prioritized according to criteria set by the Legislative Sunset Committee. A performance review of each entity's operations will shed light on how it is conducting its business and utilizing taxpayers' money. It will also serve as an indicator of whether or not the agency is conducting its enumerated functions.

Such oversight took place on the federal level in 2009 when the Government Accountability Office created an updated report of those agencies that are at high-risk for fraud. HB 236 would bring accountability to the state and local levels, as well. If 10 percent of the fraud occurring in Medicaid, the Pension Benefit Guaranty Program, and the Department of Energy was eliminated, the government would save over $6.6 billion. This would almost be enough savings to balance the $10 billion unemployment benefit extensions touted by Sen. Jim Bunning (R-KY). Imagine how this could help balance the budgets on the state level.

Sen. Coburn and his staff created an amendment requesting the identification of duplicative government programs. They identified "over 640 duplicate federal programs that overlap each other and various efforts at nearly every agency." Programs that exist at both the state/local and federal levels are examples of wasteful spending at its worst. Legislators must work to eliminate duplicate programs to cut costs and spend taxpayer dollars effectively.

Last, but not least, through tough but respected decisions, taxpayers will finally get a government that operates as a business and puts its "shareholders," i.e. taxpayers, first. The American people demand an efficient government that does not spend more than taxpayers have paid. This is my goal with Georgia HB 236—other states should think of adopting such a bill as well. ■

Charlice Byrd is presently serving the people of District 20 in the Georgia House of Representatives. She serves on five committees: Vice Chairman of Children and Youth, Economic Development and Tourism, Health and Human Services, Judiciary Non-Civil and Special Rules. Rep. Byrd is currently serving as a member of ALEC's Health and Human Services Task Force.

| *For an in-depth look at Open Book Texas initiatives, visit www.openbooktexas.org.* |

Citizens Should Expect Efficiency, Transparency from Government

BY SUSAN COMBS, TEXAS COMPTROLLER

In these tough economic times, all taxpayers—at the city, county, state and federal levels—deserve to know their tax dollars are used wisely. Just as working families must cut expenses and look for ways to save, all governments must tighten their belts and make the most of every dollar.

At the Comptroller of Public Accounts, we continuously pore over the state's budget in maintaining the books for our agency and the state of Texas as a whole—a large task and one that should be open to scrutiny. By my fourth day as Comptroller, we published all of our agency expenditures online, right down to the pencils. And thanks to our *Where the Money Goes* Web site, our expenditures and those of other state agencies are available and easily searchable online.

Our office is committed to improving Texas government transparency. Some of our initiatives may serve as effective templates for other governments in launching their transparency efforts. Taking a common-sense approach to the issue, my office introduced Open Book Texas, a set of initiatives aimed at improving government accounting accuracy, spending, and transparency.

A Single Set of Books

To shine more light on state agency bookkeeping beyond our *Where the Money Goes* online expenditure database, we are pursuing a project to establish more uniformity in Texas government accounting.

In 2007, the Texas Legislature tasked our office with creating an advisory council with other state agencies to examine uniform financial accounting in state government. The council identified that Texas state agencies use many sets of books with sometimes conflicting accounting data. Any given agency might use its own bookkeeping methods and codes for tracking and classifying items, a recipe for duplication that can make accurate statewide bookkeeping an enormous challenge.

With the Single Set of Books Initiative, our office is engaged in an ambitious enterprise resource planning project with a group of stakeholder agencies to design state accounting systems and processes that meet individual agency needs and provide necessary reporting uniformity for statewide decision making. Texas state agencies current-

ly implementing the project are the Health and Human Services Commission, Department of Aging and Disability Services, Department of State Health Services, Department of Family and Protective Services, Department of Assistive and Rehabilitative Services, Department of Transportation, Department of Motor Vehicles, and Department of Information Resources.

Uniform financial reporting across all state agencies and higher education institutions will shine the brightest light on the state's finances and allow state leaders to obtain real-time, reliable information to make well-informed decisions.

Buying Smarter

Transparency helps spotlight spending inefficiencies that can inform government purchasing decisions in the future. Our office also works to make Texas state government a smarter shopper from the outset—which is where Texas Smart Buy comes in.

Texas Smart Buy gives agencies and local governments access to an online shopping cart—much like shopping at popular online retailers—allowing governmental entities to purchase goods and services through state-negotiated contracts. By purchasing from those contracts, individual purchasers can leverage the state of Texas' bulk buying power to receive lower prices.

Our office has found ways to save $51 million annually through Texas Smart Buy and strategic sourcing. Texas has identified these savings and cost avoidances:

- Overnight/express mail: The state saved 37 percent ($6.1 million), and awarded a significant portion of this contract to a Texas-based vendor.

- Fleet: The state saves $7.4 million annually on fleet vehicles because of contract negotiations.

- Office equipment: The state saved $33 million over a three-year period by standardizing photocopiers and negotiating fixed pricing.

- Food: The state saved $15.2 million through multiple rounds of contract negotiation.

The savings, while impressive, only scratch the surface of what is possible with more scrutiny of state spending for goods and services, which totaled $21 billion in 2007. As one of the largest purchasing entities in the nation, our state will continue making that leverage work for us. For years, families have used strategies like buying in bulk to save money, and it makes sense for governments to have the same option.

Texas Transparency Check-Up

With the rollout of the *Texas Transparency Check-Up* Web site, our office has expanded on previous online accountability efforts to encourage transparency at all levels of government. The Web site offers transparency guidance to local governments and provides Texans an opportunity to see how well their local governments stack up in offering online access to financial information.

In implementing this initiative, we researched the financial transparency of the top 50 Texas cities, Texas counties, school districts, and other local entities. The site also offers local governments step-by-step advice for posting information online and presenting it in a way that is readable and understandable to the public.

The Web site provides links to exemplary local government Web sites and gives taxpayers tips on how to track their tax dollars to ensure their government is open and accountable.

As local government entities heed the call for transparency, our office spotlights their efforts on the *Check-Up* Web site. We honor local government efforts by designating them as members of the Texas Comptroller's Leadership Circle. That promotion gives those communities statewide recognition for their efforts and promotes the overall value of transparency in general.

The "Gold" designation in the Leadership Circle highlights local governments that set the bar for financial transparency, open their books to the public, and set a strong example for other governmental entities to follow. The "Silver" designation encourages entities that are making continued progress toward achieving financial transparency, while "Bronze" inspires those just beginning their efforts and taking the first steps toward achieving financial transparency.

When you know *what* you are spending, you know *how* to spend better. Our office is committed to seeing that philosophy spread to every level of government. In the age of the Internet, there is seldom a reason to not publish public information online.

Transparency and wise spending are important during the best of times and absolutely essential in an uncertain economy where every penny counts. To operate with the utmost integrity, all governments should show the same common sense, resourcefulness, and thrift when spending money as taxpayers. ■

As Comptroller of Public Accounts in Texas, Susan Combs is the state's chief financial officer. She manages the state's treasury operations to monitor Texas' fiscal health, guides legislative decision makers by estimating state revenues and ensures state taxes are collected fairly and efficiently to fund vital programs and services for the people of Texas.

High Tax Burdens Lead to Population Losses

BY RICHARD VEDDER, Ph.D.

You can learn a lot about the quality of life by looking at U-Haul rental rates. For example, if you want to rent a 26-foot U-Haul truck in Cleveland, Ohio for drop off in Austin, Texas, it will cost you $1,643, but if you want to do the reverse—rent the truck in Austin and drop it off in Cleveland—it will cost you only $892. Why? Because people are moving in large numbers from Cleveland to Austin, leaving few trucks in Cleveland but a relatively plentiful supply in Austin.

What does this have to do with the quality of life? I find this vaguely-defined term to be closely related to happiness and satisfaction. People move to areas where they believe they will lead happier, more satisfying lives. The quality of life is thus positively associated with in-migration. Areas with high in-migration have a higher quality of life, on average, than areas with high out-migration. So many people fled East Germany for West Germany before 1961 because of the higher quality of life in the West that the desperate East Germans built a wall to stop it. Even today, Cubans risk their lives trying to flee a country with a low quality of life for the United States with its higher standard of living and happier citizens (remember Elian Gonzalez)?

As important as the standard of living, taxes play a significant role in in-migration. Americans prefer low tax states—they vote with their feet by moving to those areas where the cost of government services, as measured by taxes, is less. I looked at the American states with the 10 lowest state and local tax burdens (Alaska, Nevada, Wyoming, New Hampshire, South Dakota, Florida, Tennessee, Texas, Alabama, and Montana) and compared net migration to the 10 states with the highest tax burden (New York, New Jersey, Connecticut, Rhode Island, California, Wisconsin, Maryland, Maine, Hawaii, and Ohio) over the period from April 2000 through June 2009. The evidence is overwhelming—people left the high tax states. All told, 4,274,072 more persons moved out of the 10 states with the highest state and local tax burden (as a percent of personal income) than moved in. Put differently, every day on average—Saturdays, Sundays and holidays included—1,265 persons left the

Richard Vedder is Distinguished Professor of Economics, Ohio University, a member of ALEC's Board of Scholars and an advisor to ALEC's Tax and Fiscal Policy Task Force.

high tax states, nearly one a minute.

Alternatively, look at the 10 lowest tax states. They had net in-migration of 2,851,915 persons in this period. Far more Americans fled high tax states in the past decade than fled the oppression of Communist Europe in the years before walls were built to suppress the movement.

Some might say that the above statistics are all an artifact—for example, it might be argued that climate is better in the low tax states. Yet both California and Florida have similar climates, and people massively left high tax California but entered low-tax Florida in huge numbers. They even left the Hawaiian tropical paradise and migrated into relatively frigid low tax states like South Dakota and New Hampshire.

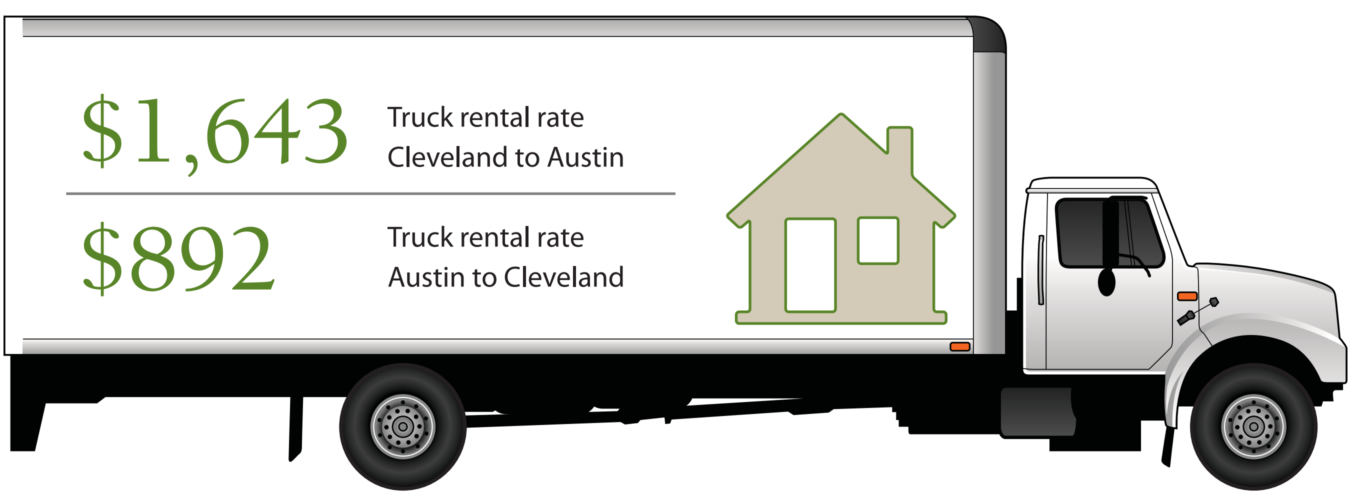
It is interesting to note that most of the low tax states had no general income tax. Income taxes are a money machine for state governments—money that almost always gets spent and rarely goes for tax reduction. States like New York, California, Ohio, and Hawaii are states with relatively high and progressive income taxes.

Low taxes raise the quality of life on average for two reasons. First, as indicated earlier, the cost of government services is lower. A family in California during this period paid on average $106 of every $1000 earned for taxes—call that the price of government services. Yet in Nevada they paid under $70—over one-third less than California. For a family with a $60,000 income, that would be well over $2,000 a year—enough to pay for a nice vacation. Are government services notably worse in low-priced (in terms of taxes) Nevada than in California? I doubt it, given the fact people are moving to Nevada from California far more than the reverse.

California and Florida have similar climates, and people massively left high tax California but entered low-tax Florida in huge numbers.

A second reason for net migration into low tax states relates to the dynamic effects on human behavior of taxes. When taxes are relatively low, productive resources tend to move into a state—both humans and capital. This reduces the productive capacity in the high tax states and increases it in those with low taxes. For example, in high tax Ohio, the number of Fortune 500 companies headquartered there declined by over one third between 1993 and 2008, going from 42 to 27, while the number increased in low tax states like Texas. As many have observed (including Arthur Laffer, Stephen Moore, and Jonathan Williams in ALEC's *Rich States, Poor States* publication), there is a striking negative correlation between taxes and economic growth. This is also true worldwide—high tax Sweden in 1970 was much richer than lower taxed Ireland, but now the reverse is true.

I am not claiming that only taxes matter in the determination of the quality of life. How tax money is spent makes a difference, as well as many other things including climate, pollution levels, job availability, availability of good sporting entertainment, government regulations, proximity of relatives, etc. I am not saying "taxes alone matter," but rather that "taxes matter a great deal." Good state fiscal policy therefore should be directed to reducing tax burdens. Often that means finding new and better ways to provide government services, using private sector and market-based methods of doing so. State legislatures cannot change the weather, exchange rates, the pace of globalization or many other things, but they do control taxes. And they should take that responsibility seriously to promote their citizens' welfare. ■



Taxpayers Need Constitutional Protections

BY JASON MERCIER

Lawmakers in Washington state are poised to raise taxes by nearly a billion dollars to address a $2.8 billion budget deficit, caused in part by overspending. Facilitating the consideration of these tax increases is the decision to repeal for two years most of Initiative 960 (I-960) enacted by voters in 2007.

On three separate occasions (1993, 1998, and 2007) Washington voters have adopted an initiative or referendum to require a two-thirds vote of lawmakers to raise taxes. On three separate occasions (2002, 2005, and 2010) the Legislature and Governor have signed a law to "temporarily" repeal this requirement—to facilitate tax increases.

On Feb. 24, Gov. Chris Gregoire signed the latest two-year repeal of this requirement reinstated by voters via Initiative 960 (I-960).

Advertised as the *Taxpayer Protection Act*, I-960 re-affirmed an oft ignored law that requires a two-thirds vote of the legislature to raise taxes. The measure also required that the legislature approve all state fee increases and that the public be notified via email any time a tax or fee increase is proposed. I-960 also mandated that if the legislature raises taxes without first referring them for voter approval, the voters would have the opportunity to participate in a non-binding advisory vote on the tax increase.

For each tax increase, the public was to receive the following information in the voters' pamphlet:

- A description of each tax increase.
- A 10-year estimate of how much lawmakers increased the financial burden they place on taxpayers.
- A list showing how each lawmaker voted.
- Each legislator's contact information.

Along with the two-year repeal of two-thirds vote requirement, the Legislature and Governor this year also repealed for two years the non-binding advisory votes and subsequent voters' pamphlet.

As a result, Washington Policy Center will publish the public disclosure information that would have appeared in the voters' pamphlet if Initiative 960 had remained in place.

I-960 sponsor Tim Eyman has already filed a new initiative to provide voters with the opportunity to implement a two-thirds vote requirement for tax increases for the fourth time.

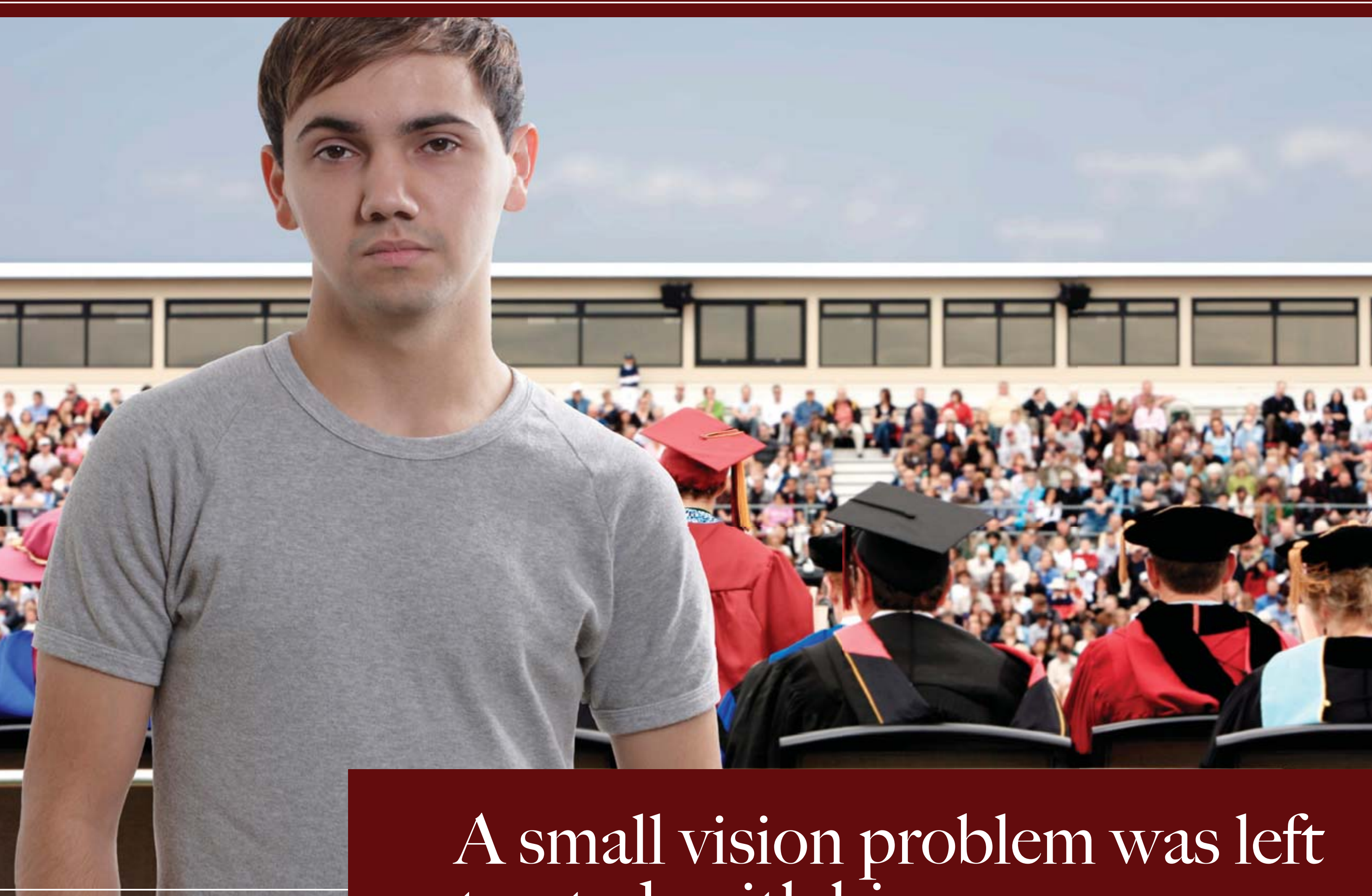
Ultimately lawmakers need to have the courage to end this debate once and for all by putting the two-thirds vote requirement for tax increases on the ballot as a constitutional amendment. Regardless of the outcome, the intent of voters will no longer be in question, and the two-thirds vote protections will not be the subject of legal debate or legislative shenanigans. Of those states with a supermajority requirement for tax increases, Washington is the only one without constitutional protections.

Washington Policy Center and the American Legislative Exchange Council (ALEC) have long advocated for this type of constitutional protection for taxpayers.

ALEC's *Super-Majority Act* can be summarized in the following way: Supermajority requirements are based on the premise that tax increases fuel excessive government spending. Therefore, to more effectively control the budgetary process, the ability to raise taxes or enact new taxes should be made as politically difficult as possible, require broad consensus, and be held to a high standard of accountability. This Act calls for a constitutional provision requiring all tax and license fee impositions and increases to be approved by two-thirds of all members of each House. It provides for an exemption if there are insufficient revenues to pay interest on the state's debt.

As lawmakers grow tempted to reach even further into the recession strained wallets of families and businesses, constitutional taxpayer protections are needed to refocus efforts on government reform instead of job-killing tax increases. ALEC's *Super-Majority Act* is just what the taxpayer needs in uncertain economic times like these. ■

Jason Mercier is the director of the Center for Government Reform. He serves on the Executive Committee of ALEC's Tax and Fiscal Policy Task Force and is a contributing editor of the Heartland Institute's *Budget & Tax News*. Jason serves as Treasurer on the board of the Washington Coalition for Open Government and was an advisor to the 2002 Washington State Tax Structure Committee.



A small vision problem was left untreated, with big consequences.

25 percent of school kids have vision problems; many go undiagnosed and untreated. That can leave too many kids behind, wasting years of education and money. Requiring comprehensive eye exams can help more kids succeed academically and graduate.

Please support mandatory comprehensive eye exams for all children entering school.

Most children are covered by private insurance or existing public programs.
A small cost for a parent today . . . a large impact on a child for a lifetime.

American Optometric Association

Missions, Goals, and Outcomes: Priority Based Budgeting in Colorado

BY REP. GLENN VAAD, (CO)

Indiana governor Mitch Daniels hit the nail on the head in his September 2009 *The Wall Street Journal* article not only when he stated that "state government finances are a wreck" but also when he says "we ain't seen nothin' yet." A major source of this predicament is the fact that government growth is fostered, if not accelerated, by the addition of new government programs without thoughtful and systematic consideration of their effects on the size and cost of government.

New programs are too often given life by legislation without adequate consideration of their effect on the size of government overall because their "stand alone" justification is unquestionable. The need for *prioritization* is unequivocal if we are going to work our way back to fiscal soundness any time soon. Herein lies the reason that I introduced priority based budgeting at the Colorado General Assembly this year.

The severe decrease in revenue that Colorado is experiencing makes it all the more important that government doesn't spend tax dollars on anything that hasn't been agreed upon as a priority. Entire programs have found their way into Colorado's budget without clear consensus among citizens that they contribute to acceptable goals and missions. Once a program is established, it nearly always qualifies for continuation as well as increased funding. This is because of inflation and/or increasing vocal support from narrow constituency groups.

Particularly in these times of economic decline, it's crucial that government spends tax dollars on only those programs that can be proven to have direct and positive results in achieving the missions and goals we all agree upon. Priority based budgeting will get Colorado started in the process of refocusing state government on priorities that the public can agree on.

Currently, Colorado has a law that mandates "zero based budgeting" at the request of the legislative Joint Budget Committee. This statute is ignored because it was considered too complicated and difficult to implement. The default system of budget preparation that results in the annual "long appropriations bill" appears to be a mystery to the public.

My legislation, if enacted, will mandate a systematic and thoughtful consideration of all state government programs by asking taxpayers what they consider the legitimate duties of their government. State government will be required to layout the mission, goals, and outcomes of each agency in clear and understandable ways so that citizens can make their own judgments.

Representative Glenn Vaad has served in the Colorado House of Representatives since 2006 and is a co-chair of the Legislative Transportation Caucus. Rep. Vaad is currently a member of ALEC's Commerce, Insurance, and Economic Development Task Force.

I crafted the priority based budgeting legislation using personal experience from working in organizational development at the Colorado Department of Highways (CDOH) and from the history of the process in the state of Washington in 2003—where they successfully used priority based budgeting to tackle a multi-billion dollar shortfall.

Once a prioritized budget is established this way, the available revenues will go to programs in order of their priority. If economic conditions cause another dramatic decrease in revenue, total programs can be selected from the bottom of the list for elimination rather than reducing support across the board in all programs.

The legislation will also take Colorado back to a biennial budget which we operated under prior to 1950. This will give the public an opportunity to weigh-in in an informed way on what they think government's priorities should be. As I have talked with constituents in the engineering and construction businesses, they have stressed the importance of being able to depend on planned multi-year budgets as they plan their work and hiring.

The bill will further specify how program objectives are met, give an explanation of the need for each program, and provide information on any federal, state, or local governments that administer a similar program. This would create more government transparency and give voice to the people of Colorado.

I realize the measures I am laying out are significant and will require major effort, but if not now, when? ■

Pension Funding Reform: A Solution for Budget Deficits

BY KRISTINA RASMUSSEN

Consider this scenario. You're a state employee. You've served your time in a government position and were promised a defined-benefit pension plan as part of the deal. You helped fund your pension over the years with personal contributions. You expect that money to be there when you retire. Plus, those benefits may be protected by your state constitution or other legal requirements.

There's a problem. A big one. Many states have pension liabilities that far exceed their assets.

"According to the Pew Center on the States, the 50 states now collectively face a $1 trillion unfunded pension and healthcare liability," notes Scott Moody, president of Public Choice Analytics for the U.S. States.

In Illinois, pension assets are at $48 billion, while liabilities are estimated to be $131 billion. This leaves an unfunded pension liability of $83 billion.

If you're like my state, the annual public pension contribution comes out of the state's general fund. It's squeezing other spending areas, like health care and transportation, while adding to the calls for tax increases. Until pension funding is fixed, states' fiscal futures won't look bright.

Now consider this perspective. You are a taxpayer. You work in the private sector and times are tough. You chaff at sending more of your hard-earned money to state coffers to help somebody else retire early with generous benefits when your own retirement savings have taken a hit.

How do we reconcile the conflicting positions? Is it possible for states to make their annual pension payments as required by law *and* protect residents from tax increases?

In the great pension battle, state workers and taxpayers don't have to be at complete odds with one another. Fixing this situation will be politically challenging, but with states running out of cash, taxpayers already strapped, and public employees wondering if their promised pension will be there, the time is right for creative and bold thinking.

The solution is the *Pension Funding and Fairness Act*. My organization, a free-market research organization and State Policy Network member, worked with Scott Moody to develop this legislation for Illinois. It can be tailored to fit the unique circumstances for other states across the country.

So how does the *Pension Funding and Fairness Act* work? Essentially, a state would fund its annual pension contribution by using the surplus revenue above a new spending growth index.

Start by placing reasonable limits on the growth of state government spending, based on the increase in inflation plus the increase in population. You'll recognize this concept from ALEC's *Tax and Expenditure Limitation Act* model legislation. Revenues that come in over the projected spending growth limit would be directed to make the annual pension payment.

Next, surplus revenues above the required pension payment would eventually be allocated to a Budget Stabilization Fund. It's designed to provide emergency cash flow in the event that the increase in state tax revenue is not enough to cover the increase in state spending under the limits—which would most likely be due to an economic recession. Our plan calls for a Stabilization Fund that is 12 percent of the preceding year's general revenue fund, but this amount is flexible.

After the Budget Stabilization Fund is filled, surplus revenue would be returned to taxpayers via tax refund checks. Based on our projections—which you can see at IllinoisPolicy.org—the cumulative value of the tax refunds for Illinois residents under the *Pension Funding and Fairness Act* would total hundreds of billions of dollars by 2045.

Our Taxpayer Relief Fund would send rebate checks to taxpayers in proportion to the number of exemptions claimed on the previous year's tax

Kristina Rasmussen serves as the Executive Vice President of the Illinois Policy Institute, where she directs the Institute's operations, policy research, and legislative outreach. Rasmussen is also a member of ALEC's Tax and Fiscal Policy Task Force.

return, but again, this can be tailored to fix your state's circumstances. Some would prefer pro-rata tax refunds based on actual taxes paid.

The biggest challenge with this plan is how to fund the initial transition years, when the surplus revenues over the spending limit are not likely to be sufficient to make the state's required pension payment. Additional spending reforms help. Another solution is to borrow on a short-term basis. Borrowing is not ideal, but it can work with tight payback covenants if necessary. A better choice is to fund the transition by selling or leasing assets. Selling assets to perpetuate overspending would be a colossal mistake. But selling assets to fund constitutionally protected pensions—while implementing a spending cap that ensures we never face this problem again—should be embraced.

What's transformative about this plan is that it realigns priorities. Instead of fighting over a shrinking budget pie, both state employees and taxpayers will have every incentive to pursue policy solutions that grow a state's economy. After all, every dollar that comes in above the spending index will help fund pension benefits and then tax refund checks.

As state legislators are well aware, incentives matter when it comes to putting together coalitions to pass legislation. "The *Pension Funding and Fairness Act* changes the rules-of-the-game to honor the pension commitments made to government workers while also respecting taxpayer's limited ability to pay," argues Moody.

To be clear, the *Pension Funding and Fairness Act* focuses on developing a funding mechanism for today's pension system. Much of the pension discussion has focused on reforming pension benefits. Passing benefit reforms—like moving from a defined-benefit plan to a defined-contribution system—will offer significant savings over the long run, and they should be pursued.

As Illinois State Senator Chris Lauzen, chair of ALEC's Unfunded Liabilities and Public Pensions Working Group, wrote in a May 2009 *Inside ALEC* article co-authored with Dr. Barry Poulson, state governments must begin to replace defined-benefit pension plans for public employees with a defined-contribution system.

The advantages are clear, according to Lauzen and Poulson, "Well-structured reforms, such as those enacted in Alaska, can provide generous benefits to workers while actually reducing costs for both workers and taxpayers. With a defined contribution plan for newly-hired workers, over time, as the newly hired workers become an increasingly larger component of the workforce, the problems in the current plans will disappear. Most importantly, the unfunded liabilities could be gradually reduced and eliminated."

Combined with benefit reforms and honest liability reporting requirements, pension funding mechanisms like the *Pension Funding and Fairness Act* will help state governments honor their commitments to public employee pensioners while also protecting taxpayers—all while launching a new period of growth and government accountability. ■

Kansas Legislators Pursue Government Privatization Options

BY REP. MARVIN KLEEB, (KS)

For the past four years of declining state revenues, Kansas has done everything possible to outlast the recession by redirecting highway money, relying on federal stimulus money, utilizing accounting techniques, delaying tax refunds, postponing maintenance projects and going through nearly a billion dollars in reserves.

Rather than take substantive steps to genuinely solve the spending problems of a largess government that grew relatively unchecked in the easy tax generation days of the mid-decade, the strategy has been to wait and get bailed out by an economic recovery that presumably will increase sales, income and property tax revenues.

However, the Kansas legislature is stepping up with substantive proposals to provide long-term solutions by reining in government while providing quality services and education for its citizens.

The Chairman of the Kansas House Appropriations Committee, Kevin Yoder, has been particularly focused on legislation to address the high cost of government. "Instead of asking taxpayers to pay more for less service," he says, "we should be asking state government to do more with less revenue."

I have proposed one such proposal, based on ALEC model legislation, which creates a new Council on Efficient Government comprised of private sector experts to review all functions and activities provided by state agencies to see whether they duplicate services provided by the private sector or nonprofit organizations.

The primary objective of the Council is to utilize a rigorous process to initiate and evaluate opportunities where privatization could offer the knowledge, experience and creativity to provide the same (or higher) level of services at a lower cost through greater efficiencies and productivity.

It is important to add all potential costs and savings into the analysis when considering working with the private sector or nonprofits. "Privatization successes have yielded 10 percent to 35 percent savings for many local and state governments," notes Len Gilroy, a privatization expert and consultant with the Reason Foundation.

One major benefit of working with nonprofits is that much of their human capital and service delivery is provided with volunteers. Secondly, much of nonprofits' financial support is leveraged and supported with fundraising and private contributions.

Also, with privatization there may not be employee benefits, pension costs, software upgrades, equipment expenses or "brick and mortar" costs. Furthermore, the state may benefit from outside, shared expertise and infrastructure allocations spread among many clients of a vendor.

The new Council would establish a standardized method for procuring and managing contracts in order to maximize accountability, performance and competition and ensure that the state delivers the best value for taxpayers.

A second proposal, offered by Representative Lee Tafanelli and Senator Derrick Schmidt, would establish a Kansas Streamlining Commission.

The non-political BRAC style commission would review and recommend government programs and agencies that should be consolidated, overhauled and even eliminated.

Significant savings and efficiencies may be found by eliminating local, federal and state duplication of functions and services. "In addition," comments Rep. Tafanelli, "such an independent review would take a look at 'mission creep' and unnecessary expansion of legacy programs, staffing and services that inherently occurs over time."

Resistance to both the privatization and streamlining legislation comes from the usual constituencies of state employee groups and big government advocates. "However," points out Majority Leader Ray Merrick and ALEC's Kansas State Chair, "budgetary pressures, fairness to the taxpayers and concern for the delivery of high quality services to our citizens continue to drive these efforts forward." ■

Marvin Kleeb is a Republican member of the Kansas House of Representatives, representing the 48th district. Rep. Kleeb is currently a member of ALEC's Civil Justice Task Force.

Reforms for Florida in a Difficult Economy

BY TIM NASH & JONATHAN WILLIAMS, with Kurt Bouwhuis and Alexander Watts

Florida is facing a likely $3 billion budget gap in 2011-2012, and the temptation will be to raise taxes—a sure way to slow economic recovery.

Florida has built a national reputation for being a business-friendly state with pro-growth fiscal policies. These pro-growth policies have attracted financial and human capital away from states with poor policies. More Americans have moved to Florida than any other state over the past decade. Even with a current unemployment rate at 11.8 percent (highest since 1975), construction employment down 38.5 percent (since January of 2007), and distressed real estate, building, and tourism sectors, the fundamental economic outlook for Florida is optimistic.

An article from The American Legislative Exchange Council (ALEC) entitled *Rich States, Poor States: The 2009 ALEC-Laffer State Economic Competitiveness Index* produced economic outlook rankings for all 50 states. The report ranks the states based on 15 policy variables with a proven impact on the migration of human and investment capital throughout the United States. Florida enjoys a stellar economic outlook, ranking 11th best out of the 50 states due to its generally favorable public policy.

That said, the current downturn has hit Florida hard, and there are steps Florida should take to improve its economic future.

1 Florida must reign in its government spending and not increase its burden on taxpayers. The Tax Foundation ranks Florida combined state and local tax burden 4th lowest nationally. Florida job losses rank among the highest in the country since 2007; adding to the tax burden will only exacerbate this.

2 Florida should avoid attempting to aid those industries suffering from the downturn, and instead focus on long run growth so the economy can diminish negative outcomes in the next recession. Any programmatic attempts to aid those experiencing hard times with government handouts will hinder long run growth and make the economy vulnerable to future recessions. Market prices in construction and housing reflect real circumstances in the economy, and therefore, aid will only mask the problem while simultaneously making it worse.

3 Thomas Sowell, in his book *The Housing Boom and Bust* (2009), argues that Florida would do well to significantly reduce its regulatory burden on zoning and housing to speed up recovery. This will enable Floridians to easily transfer and reconfigure their properties allowing them to effectively deal with Florida's high foreclosure rates. Florida currently has the country's third highest foreclosure rate, which has fallen from its peak at almost 19 percent. Also, regulatory relief will allow the market to more accurately price properties, making the Florida economy less susceptible to national booms and busts.

4 Florida law currently requires that the state Unemployment Trust Fund be replenished by raising the unemployment tax on businesses. With a large projected debt based on current unemployment, the minimum amount required to be paid by businesses will go from $8.40 per employee to $100.30 per employee if adjustments are not made to unemployment payments. If the 2010 unemployment tax rate is not changed, thousands of small business will be forced to cut staff in order to cover the new tax. A move to adjust this tax downward will help business in general and Florida's contracting economy in particular.

Florida's low tax policy fundamentals are solid and if policymakers can engineer a plan to withstand the current downturn without resorting to tax increases, Florida will remain an attractive venue for employees, employers, and investors alike. ■

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FAR LEFT | Timothy G. Nash is a vice president and Fry Chair in Market Economics at Northwood University.

LEFT | Jonathan Williams serves as the director of ALEC's Tax and Fiscal Policy Task Force.

Ohio Must Change Fiscal Policies to Revitalize Economy

BY REP. JOHN ADAMS, (OH)

High taxes don't redistribute wealth, they redistribute people.

Rep. John P. Adams was elected by his colleagues to serve as Minority Whip of the Ohio House of Representatives. He also serves on ALEC's Tax and Fiscal Policy Task Force.

As a high-tax state, Ohio has witnessed a loss of 231,000 taxpayers in just the past 15 years, as well as a serious decline of our once-prominent manufacturing industry. In fact, *Forbes* ranked five Ohio cities—Cleveland, Canton, Akron, Toledo, and Youngstown—among the top 20 most miserable cities in the United States.

The Buckeye State has fallen severely behind in the interstate competition for jobs, businesses, and capital. At the heart of our economic decline is a deficient business climate that has shrunk our tax base and shriveled the economy. Taxpayers and businesses are speaking with their feet by relocating to the low-tax states of the South and West in search of jobs and business-friendly environments.

As a small business owner, I can speak to the effects of Ohio's poor economic climate and how high taxes hinder investment and growth. The financial train wreck that is on our heels is avoidable, but the big spenders in Columbus continue to tax jobs right out of the state.

The best—and quite frankly, only—way to fix a budget crisis is to rein in state spending and promote policies that foster economic growth. As such, I proposed a measure to phase out the state income tax over a 10-year period, which will help Ohio compete in the 21st century.

When looking at the past six years, Ohio's total state spending increased an average of 2.4 percent while spending in the General Revenue Fund averaged 4.5 percent growth. My proposal cuts these two rates of spending growth in half and devotes the difference to phasing out the punitive and economically damaging income tax.

The people of Ohio are well aware of our crisis, ranking 49th in economic performance over the past decade and only beating out beleaguered Michigan. Some naysayers are perfectly happy with this economic status quo, but I believe Ohio deserves better. The only way to reenergize the state economy is to eliminate the job-killing income tax and revamp the way our state does business.

With strong competitors such as Indiana just across the border, Ohio's legislature should understand that fiscal reforms do not occur in a vacuum. When a state improves its economic policies, it improves its competitive position for business investment while putting neighboring states at a disadvantage. If we hope to keep Ohio's economy alive, the first step is to make our tax code more appealing to businesses and families. We need to align our taxes with our most competitive neighbors and then work our way to the front of the pack nationally through commonsense reforms.

Ohio has an opportunity to send a message nationwide that we are a state where businesses can thrive. Businesses and the jobs they create are the keys to economic success, and Ohio's leaders need to reset their sights on bringing businesses back to the state. We can be the state of the American Dream, where honest hard work is rewarded and the state government works for the people, not the other way around. ■

CALIFORNIA

Lessons from Liberalism's Laboratory

BY MICHELLE STEEL, California Board of Equalization

California has historically been the destination for dreamers. The state's first population boom began with the gold rush when California became the place where dreams come true.

In the early 20th century, the motion picture industry picked California as its home. It was to California that a young Louis B. Mayer traveled in 1918. Mayer, the son of a junk dealer, came to California with a dream, and within six years he founded Metro Goldwyn Mayer. He went on to become the most powerful man in Hollywood during the golden age of film, and the highest paid man in America at that time.

Walt Disney moved to California in 1922. At 21, all he had was $500 and a stack of drawings no one would buy. Within 15 years, Disney made motion picture history with his *Snow White and the Seven Dwarfs*. Today, Disneyland is California's most visited attraction and the Walt Disney Company is one of the largest entertainment companies in the world.

In his history of California, former state librarian Kevin Starr wrote, "California emerged as a society with a special capacity for technology." It was in California that flight took off, with companies such as Lockheed, Douglas, and Northrop. California was the birthplace of the microchip and the personal computer. Entering the 21st century, California had become the most diverse and successful state in history in terms of economy and population.

The movie industry took off in California in the early 20th century, beginning a technology boom that has spanned generations. Today's industry is abandoning the state in order to take advantage of tax incentives and to avoid the Golden State's corporate income tax.

Yet, today Californians are being strangled by the ever-growing hands of their government. California's unemployment rate is at a record 12.4 percent. The total unemployment rate, including discouraged workers and those working part-time for economic reasons, was 21.1 percent for 2009, according to the U.S. Bureau of Labor and Statistics.

As Troy Senik recently wrote in *National Affairs*, from 2004 to 2007, more Californians moved to Oklahoma and Texas than came from those states to California during the dust bowl. In 1940, California had a population of seven million. Today the population is near 36 million and declining for the first time. Nearly 3,000 people leave the state every week. A state that used to recover from recessions on housing booms has become a housing bust.

The aerospace companies that once formed the backbone of California's booming economy have abandoned the state. These companies moved their headquarters east to take advantage of tax incentives for relocation and avoid California's corporate income tax: among the nation's highest.

Taxable sales have fallen quarter after quarter because, for too many, the highest sales tax in the nation—reaching 10.75 percent in certain cities—is just too much. There is not enough income left in the hands of the people after the state takes its cut.

Instead of the dust-cloud that swallowed the Midwest in the 1930s, California is being swallowed by increasing debt, uncontrolled spending, and punitive taxation. The state's bond debt combined with current and future pension and health liabilities is approximately $630 billion. California has the worst credit rating of any state in the nation.

Following the largest state tax increases in history last February, California continues to spend more than it takes in. A $20 billion budget deficit is already projected for this year and similar deficits will recur every year unless something is done.

Budget trickery has become the standard in Sacramento and it clearly infects its practitioners. In 30 years, California has not finished a single budget on time. Each successive budget is filled with gimmicks, patches, triggers, fixes, and all sorts of magic tricks, to evade real solutions.

Regulation is strangling the state's businesses and making California a toxic environment for entrepreneurs. A recent study by CSU Sacramento economists shows 3.8 million jobs are lost annually because of regulation alone.

AB 32, California's global warming law—a tortured response to controversial science—will kill over one million jobs according to another study by the same economists. According to the state's own numbers, the implementation cost of AB 32 will be $142 billion.

In late 2009, CalPortland Cement, the company whose cement built our freeways, announced it would close one of its two plants in California. The CEO explained that a mind-boggling 67 federal, state, and local agencies regulate his business: 54 of those are from California.

The most outlandish tax and regulation schemes are dreamt up everyday in the legislature. Recently a bill was passed in the Senate to pay county and municipal governments to get rid of parking spots, and charge high fees for remaining spots. The goal of the bill was to take away the freedom of Californians to drive their cars, compel travel by public transit and so save the environment; this in the land of the freeway.

In 2006, Southern California was home to 23 Fortune 500 companies. Today the southland can claim only 19. It's not only Fortune 500s that are leaving. U.S. Census Bureau statistics show that in 2008 alone, 45 percent more businesses went out of business than opened.

Elected to the Board of Equalization in 2006, Michelle Steel serves as the country's highest ranking Korean-American officeholder and California's highest ranking Republican woman. A successful businesswoman and renowned taxpayer advocate, Steel represents more than eight million people in the Third District, which includes the counties of Imperial, Orange, Riverside, San Diego, and portions of Los Angeles and San Bernardino.

What went so wrong? Banking on the prosperity that made California one of the strongest economies in the world, liberal ideologues came to reshape the system and "provide" for the people.

California was transformed from the Golden State to the Nanny State by liberal politicians who thought they knew better than 36 million people how to organize California's society and economy.

Increased taxation was necessary to pay for growing entitlements. The social costs of growing government—decreased consumption and increased reliance on the state instead of on the community—were ignored in favor of bureaucratic control. The idea of fostering ambition, innovation and real growth spurred by the free market vanished from the Golden State.

It's time for California to abandon its religion of taxation and regulation. We need a reformation to unleash the human capital that built the dream that is California. ■

BY SUSAN K. NEELY

Discriminatory Beverage Taxes Won't Improve Health

A discriminatory tax is never a good idea, as they don't work. And a discriminatory tax on sugar-sweetened beverages is a particularly bad idea given that it won't work in addressing health concerns, but it will add to the burden of families already struggling through a horrible economy. It will also put at risk thousands of good-paying jobs with good health benefits throughout the country during a time when our nation still faces double-digit unemployment.

A report from the National Cancer Institute, submitted to the 2010 Dietary Guidelines Committee, showed that only 5.5 percent of the average person's daily caloric intake comes from beverages. That means that roughly 94 percent of their calories come from other foods and beverages. What this shows is that a discriminatory tax on certain beverages doesn't even qualify as a good start in the pursuit of better health. Taxing sugar-sweetened beverages only addresses a small piece of the much larger picture.

Further, a recent study by George Mason University shows that a 15-cent tax on a 75-cent can of soda would reduce the average obese person's Body Mass Index (BMI) from 40.00 to 39.98. That's not even measurable on a bathroom scale. And a study by Harvard researchers published in the *New England Journal of Medicine* last year concluded that all calories count—regardless of food source—when it comes to losing weight. We simply cannot tax our way to better health.

And real world experience also shows that a tax won't work. Only two states currently have an excise tax on soft drinks enacted—West Virginia and Arkansas—and they rank among the 10 highest rates of obesity in the country.

An excise tax like this is discriminatory and regressive. A Congressional Research Service review confirmed that

the burden of a tax on juice drinks and soda would further squeeze hard-working families already struggling through a recession. A tax on beverages put good-paying jobs at risk and negatively impact wages across the country.

Americans clearly do not want government using the tax code to tell them what to eat or drink. At the end of 2008, the state government in Maine imposed a tax on certain beverages to pay for the state health care program. In a November ballot initiative, angry Maine voters rejected the tax by a two-to-one margin. Last year in New York, the governor publicly scrapped his idea to levy a major tax on sugar-sweetened beverages after angry New Yorkers strongly revolted. And the governor is feeling the heat for his proposal again this year.

Americans are capable of making their own food choices that fit into a balanced diet without unnecessary government intervention, especially with a little guidance on how to balance the calories they consume with the calories they burn. And they are making noticeable progress to that end by taking advantage of the breadth of zero- and low-calorie beverages available. Importantly, since 1998, there has been a 21 percent reduction in calories in beverages in the marketplace, as industry continues to produce more zero-calorie, low-calorie and reduced-portion products.

Even so, our industry recognizes that we produce products with calories. As such, we are doing our part in the private sector to address the very serious and complex issue of obesity by developing and implementing initiatives that are doing more than a tax ever could.

For the past three years, Dr. Pepper, Snapple Group, The Coca-Cola Company, and PepsiCo have been removing full-calorie soft drinks from schools across the country as well as capping calories and reducing portion sizes of the beverages that remain as part of our national School Beverage Guidelines. It's not always easy to get these competitive companies to agree on something, but on this issue we continue to stand united. Since 2006, shipments of full-calorie soft drinks to schools have declined 95 percent of schools are participating. And we reduced the amount of calories being shipped to schools by 88 percent. We've been praised for this effort, being called a standout leader in the food and beverage industry. The guidelines cut calories from beverages being sold in schools as part of a broader effort to help educate kids on how to make smarter decisions about their diets.

We have worked diligently to develop the Clear on Calories initiative. Our member companies have pledged to mark the full amount of calories per container (up to 20 ounces) right on the front label of the product, putting important nutrition information that the fingertips of consumers at the point of purchase which will help them make the decision that is right for them. This information will also be readily available at vending and fountain machines.

These initiatives are well thought out and meaningful. They are a perfect example of how the private sector, working with non-profit groups, can step up to do its part to address a societal issue faster and more effectively than government alone ever could. And these programs will have a lasting impact. A tax could never do that. ■

88% fewer beverage calories

It's a brand new day in America's schools when it comes to beverages. The beverage industry has delivered on its commitment to change the school beverage landscape. Full-calorie sodas have been replaced by lower-calorie, nutritious, smaller-portion choices.

AMERICAN BEVERAGE ASSOCIATION

Susan K. Neely is president and chief executive officer of the American Beverage Association. Prior to joining ABA, Neely was one of the architects of the nation's first Department of Homeland Security, where she served in both the White House and then in the department as Assistant Secretary for Public Affairs. Among her numerous responsibilities in that role, Neely managed threat announcements, branding, public education campaigns, and crisis communications.

End the Budget Bait and Switch

BY BOB WILLIAMS

A recent report by the National Governors Association forecasts that states will face budget deficits totaling $134 billion over the next three years. Vermont Gov. Jim Douglas indicates the worst is probably yet to come.

Many governors and state legislators are using accounting gimmicks and federal stimulus funds to temporarily balance their budgets. When federal funds run out in a year or two, these states will face a spending cliff, necessitating a significant downsizing of their state budgets. Legislators allow bureaucrats to report a budget shortfall as the difference between what the state wants to spend (not the current budget) and the revenue forecast. A real shortfall is the difference between the current level of spending and the revenue forecast. Thus, most shortfalls are highly inflated.

Legislators need an urgent wake-up call before it's too late. Most state budgets are unsustainable, and legislators need to stop the budget bait and switch (budget gimmicks). I speak as a former U.S. Government Accountability Office (GAO) auditor, a former certified public accountant, and a former five-term state representative who served on the budget committee for 10 years.

The day of fiscal reckoning is now. The economy of most states cannot support the high level of spending that has occurred over the last decade. State revenues will not return to the 2007 level for several years. Most legislators are unaware of the severity of the structural budget problem, and legislative leadership has indulged in budget gimmicks that will exacerbate the long-term fiscal problem. A close examination of state budgets reveals that nearly all states have enacted budgets that are unsustainable.

Rather than reducing spending to reflect the declining state revenues and fundamentally reforming the size and scope of state government, legislators are artificially propping up a higher level of spending than can be supported by their state's economy.

The problem is excessive state spending—not a lack of revenue. It is true that states have faced declining revenue in the past two years, but this is not even close to the steep revenue increases since 1993. According to the U.S Census Bureau, state revenue data since 1993 shows a total taxation increase of 120.8 percent. That's 2.5 times inflation, 1.5 times Gross Domestic Product, almost six times household growth, more than 1.2 times median household income, and 10 times growth in average household income. And during this record revenue growth, states for the most part did not build up rainy day funds, and underfunded pensions and other liabilities. Taxpayers can't determine the actual financial status of their state because of the manner in which liabilities are hidden from the public.

Bob Williams serves as the private sector chairman of ALEC's Tax and Fiscal Policy Task Force, and is the founder of the Evergreen Foundation in Olympia, WA.

Washington State exemplifies the bad choices legislators are making. Last year, Gov. Chris Gregoire convinced legislators that they were facing a $9 billion shortfall (out of a $30 billion, two-year general fund budget). Legislators talked a lot about cuts, but when they were finished they had reduced the general fund by $1 billion, and increased other funds (i.e. federal funds and other accounts) ballooning total state spending by $1.3 billion. This year the governor said the state had another $2.8 billion budget shortfall. After again talking about the tough cuts that were being made, the Senate proposed a budget that raises total spending by $1.8 billion and the House by $1.5 billion. Clearly these rates of increases are unsustainable.

Over two years, the public was told the state had an $11.8 billion budget shortfall; budgets were cut to the bone and taxes had to be raised. In reality, state spending will be increased by more than $2.8 billion! Officials are counting reduced spending increases as "cuts."

Washington state seems to have fine-tuned the games and gimmicks that are being used to "balance" state budgets, resulting in the bills being passed on to future generations. Given all the deferred costs, unfunded pensions and retiree health care benefits, and increased debt service, the money will not be there to continue this high level of spending. Something will have to give.

These are gimmicks that were used over the past year in Washington:

- **Used more than $3.5 billion** in federal stimulus funding which enabled legislators to avoid downsizing government, but will increase the budget gap when federal government funding expires.

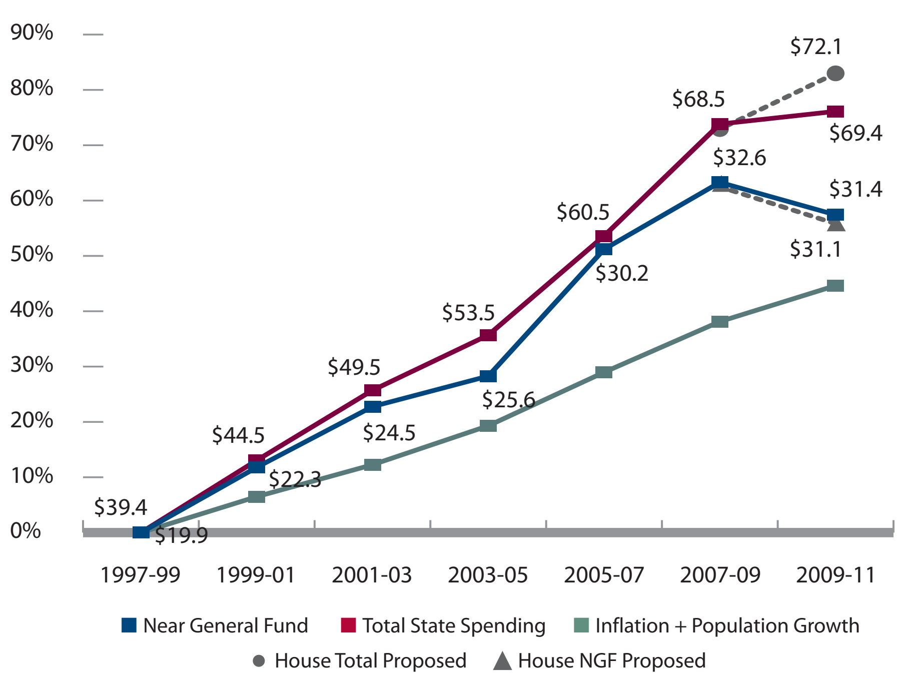
• **Overstated the budget shortfall** as mentioned above.

• **Transferred $269 million** from various dedicated accounts to help balance the budget. This included taking $84 million out of the capital funds. In 2009, legislators transferred nearly $800 million from capital accounts.

• **Used 100 percent of the budget** stabilization fund (the restricted reserve account). This amounts to $45 million in 2009 and $229 million this year.

Growth of Washington State Government Spending, 1997-99 through 2009-11

Includes House Proposed 2010 Supplemental Budget (Dollars in Billions)



• **Taxed hospitals** in order to "leverage" (get more) federal money. This raised $33 million by taxing hospitals, resulting in a higher federal match. Then the legislature returned the $33 million to the hospitals by increasing the hospital reimbursement rates.

• **"Shell games"** artificially increased the voter-approved state spending limit. The Senate used an accounting gimmick to raise the spending limit by $110 million.

a. Budget directed the State Treasurer to transfer $100.77 million from the Education Savings Account to the Education Legacy Trust Account for fiscal year 2010.

b. Budget then directed the State Treasurer to transfer $110 million from the Education Legacy Trust Account to the state general fund for fiscal year 2010.

c. Budget further directed the State Treasurer to transfer $110,000 from the general fund to the Education Trust Account for fiscal year 2011. SSB 6444, Section 802, Lines 17-24, Page 230.

d. A separate bill allowed the state spending limit to be increased for the transfer of funds to the general fund and prevented it from being decreased for the transfer out of the funds. *SB 6875 Section 7(4), Lines 11-13, page 9.*

e. Net result: The Senate artificially raised the spending limit by $110,000,000.

• **Played games with cash flow.** State law currently requires the governor to order across-the-board cuts whenever there is a forecast of a deficit in a fund. The budget temporarily suspended the law and allows state agencies to run a deficit as long as it is eliminated by June 30.

• **"Gamed the pension system."** In addition to under funding pensions, legislators assumed an 8 percent return on pension investments. Instead, the state lost 25 percent of the pension investment in the stock market last year. They will write off this loss over five years, but they still assume an 8 percent return. In addition, in order to lower the amount they would put in pensions, they assume state employees will work longer and die earlier than the mortality tables—that "saved" $45 million.

• **Assumed a lower rate of inflation** than reasonable. The legislature assumed state employee health care would rise only 3 percent over the two-year budget period. As a result, the state employees health care fund has a $100 million deficit, and the governor and legislators are unwilling to reopen the state employee contract. Taxpayers are left holding the bill.

Legislators need to look at the costs that are being pushed forward and ask themselves, "Where are we going to get the money?" This is a plea for states to stop the budget gimmicks and downsize government. Indiana Gov. Mitch Daniels was correct: it is the time for "The Big Reset," in state government. ■

Getting a Better Return on Gas Tax Dollars

BY DEL. SUSAN KREBS, (MD)

Motorists should expect to get more than just gasoline when they fill up their tanks. When they make their payment at the pump, they also make an investment.

Ever since inception of the gas tax in 1919, when Oregon imposed a penny per gallon, the levy has been viewed as a "user fee" that ushered our nation into the Automobile Age by paying for the construction and improvement of our roadway system.

Drivers also should be able to expect that other car-related levies that are paid for the privilege of driving go toward the roads that are needed to exercise that privilege. Yet, across the country we see repeated grabs of these revenues for use on everything from heavy rail systems to education to museums.

In Maryland, several legislators want to raise the gas tax, while, at the same time, Gov. Martin O'Malley plans to backfill his General Fund budget with transportation dollars. Unfortunately, there is an enormous temptation for some policymakers to dip into these revenues—even when, as in Maryland, they are supposed to be dedicated for transportation purposes only.

We need action on two fronts to ensure that our transportation revenues, including those generated for transit, are spent the way they should be. In Maryland, two of my legislative initiatives would achieve this, including one based on an ALEC model Constitutional Amendment.

Delegate Krebs is serving her second term as representative of Maryland 9B district. Del. Krebs is currently a member of ALEC's Commerce, Insurance, and Economic Development Task Force.

Transportation Trust Fund Protection Act

Maryland's Transportation Trust Fund was created in 1971 as a completely separate pot of money from the General Fund. It is a special fund to be spent only on maintenance and construction of transportation projects. Existing law says no Transportation Trust Fund money may revert or be credited to the General Fund. Unfortunately, that law has been ignored over the past 25 years, with $892 million diverted to the General fund, mostly to close projected budget shortfalls. My legislation would make it more difficult to raid our transportation funds.

Dedicated Highway Funds

This bill would ensure that revenues from the gas tax, vehicle title tax and car registration are spent only for roadway purposes. It would ban any diversion of this money to Maryland's General Fund. This measure is based on ALEC's *Constitutional Amendment Restricting the Use of Vehicle Fees and Taxes for Highway*.

Many states protect transportation funds from being re-directed for other uses. California requires that transfers be repaid within the same fiscal year, or three years, depending on the circumstances. Georgia's only exception is in the case of invasions or major catastrophes.

29

The number of states requiring a direct link between gas tax revenue and road construction and maintenance.

Maryland and other states should follow, by erecting firewalls between their Transportation Trust Funds and their General Funds. The need is especially critical in Maryland, where our General Assembly is considering a proposal in the *Budget Reconciliation and Financing Act* to make the biggest single Trust Fund diversion yet—$340 million in the next fiscal year. This diversion will hurt both our roads and our transit systems.

To go a step further, we must protect the biggest chunk of revenues that come into our trust fund—the gas tax, vehicle titling tax, and car registrations—from being drained away from the very people who paid them. According to ALEC, only 29 states have any requirement that directly links gas tax revenue to road construction and maintenance. We should join them. We must guarantee our constituents a solid return on their investment. ■

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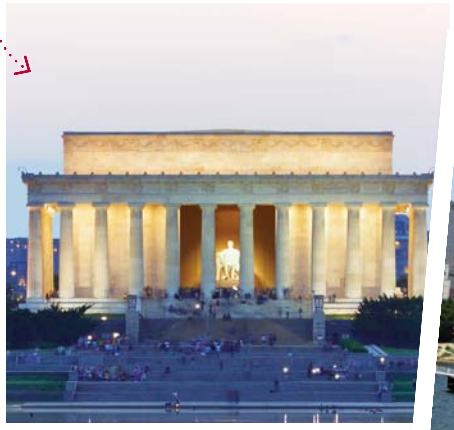
Annual Meeting
Aug. 5-8, 2010

States & Nation Policy Summit
Dec. 1-3, 2010

Spring Task Force Summit
April 29-30, 2011


San Diego, CA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